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Statewide Fiscal Services Dept.
Expenditure Audit Section
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Audit Report # 735-16-01
July 12, 2017

Post-Payment Audit of Midwestern State University



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of Midwestern State University's (University) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Human Resource Information System (HRIS) during the period beginning June 1, 2015, through May 31, 2016, to determine compliance with applicable state laws.

The University receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The University should implement the recommendations listed in the Detailed Findings of this report. It is the University's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the University's documents comply in the future. The University must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes. The University was also audited for compliance with Human Resource Information System (HRIS) reporting requirements.

The audit identified:

- Incorrect hazardous duty payment amount.
- Incorrect payment of accrued time.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Purchase order created after invoice.

The University paid \$82.82 in prompt payment interest during the audit period.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

- No issues were identified.

Payment scheduling

Transactions were audited for compliance with the prompt payment law and scheduling rules.

- No issues were identified.

Direct deposit authorization forms

A review of the University's procedure to comply with the federal mandate involving the movement of funds internationally.

The audit identified:

- Two vendors did not have completed direct deposit authorization forms as required by the National Automated Clearing House (ACH) Association rules.

Security

The audit included a security review to identify any of the University's employees with security in USAS or on the voucher signature cards, who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The audit identified:

- Employee retained security to expend funds after authority expired.
- Employee retained ability to expend funds after termination.

Internal control structure

The University's internal control structure was reviewed. The review was limited to obtaining an understanding of the University's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- Three employees can process transactions without oversight.

Fixed assets

The audit included a limited number of fixed assets acquired by the University during the audit period. Their physical existence and use for state business was verified.

- No issues were identified.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the University's payroll, purchase and travel transactions was concluded on May 31, 2012.

During the current audit, the following recurring findings were identified:

- Purchase order created after invoice.
- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Incorrect Hazardous Duty Payment Amount

Finding

We identified one transaction where the University incorrectly calculated the employee's total months of hazardous duty eligible state service. This resulted in incorrect payments of longevity and hazardous duty pay. The total overpayment of hazardous duty pay was \$280.

The University explained that it improperly credited the employee for all of his prior state service as being eligible for hazardous duty pay. Instead the University should have credited it as a combination of prior state service eligible for longevity and the state service eligible for hazardous duty pay. The employee retired prior to this audit.

Agencies are required to maintain specific documentation to support the legality, propriety and fiscal responsibility of each payment made from agency funds. The Comptroller's office may require documentation be made available during a post-payment audit, a pre-payment audit or at any other time. See [Texas Payroll/Personnel Resource](#) – Required Documentation.

We provided the University with the schedules and calculations of the incorrect payment amounts. They are not included with this report due to confidentiality issues.

Recommendation/Requirement

The University should verify months of state service data for its employees and enhance its internal controls to prevent incorrect longevity and hazardous duty payments.

In addition, the University should verify all personnel files and ensure that prior state service is properly verified and documented for its employees. The University should consider recovering the overpayments made to employees in accordance with Texas Government Code, Chapter 666.

University Response

MSU has several summer schedules; some employees work 10-hour days, some work 9-hour days and a 4-hour day, and others continue to work an 8-hour shift.

For some employees the scheduled holidays are moved to March instead of the month they normally fall in due to the summer schedule. This alters the lump sum payments for employees that have already used a holiday (in March) or employees that used the holiday and terminated before they have actually earned it, so adjustments have to be made to the lump sum payout.

In the case of the employee who was calculated incorrectly, there is a formula in the cell for the hours used to calculate one of the months shifting the hours to the subsequent month (at a different rate). Although this may have been a valid adjustment, proper notes were not kept to explain the adjustment and the University was unable to determine the reason for the calculation change.

In the future, any adjustment to a month for schedule change reasons will be properly noted.

DETAILED FINDINGS — PURCHASE

Purchase Order Created After Invoice

Finding

We identified one purchase transaction where the University created a purchase order (PO) after the invoice was received. The University stated that it was an oversight and has created a letter to be sent to the vendor and the end users stating the PO number is required prior to the purchase transaction.

With no PO created at the time the goods were ordered, it was difficult for the University to ensure it was not overcharged or billed for goods or services beyond those the University agreed to purchase.

According to 34 Texas Administrative Code Section 5.51(c)(1)(D), it is the responsibility of the state agency and its officers to “ensure that for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible.”

Recommendation/Requirement

While a formal purchase order is not always required, documentation of the agreement must be prepared at the time the goods or services are ordered from the vendor. Once the University has made a final approved agreement with the vendor, the University may not pay any amount in excess of the agreed-upon amount unless the agreement is amended due to the vendor providing the University additional benefit, i.e., consideration.

University Response

Purchasing instituted an “After the Fact Letter” to be sent to the vendor and the campus individual responsible for the purchase stating that a purchase order number is required or a credit card number issued for each purchase before it can be purchased.

DETAILED FINDINGS — DIRECT DEPOSIT AUTHORIZATION FORMS

Incorrect Direct Deposit Authorization Form

Finding

We conducted a review of the University's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally. Of the ten vendors selected and reviewed, one did not have a correct direct deposit form on file while another vendor's form was not properly completed. Without a current and properly completed form on file, the University was unable to indicate whether state funds were forwarded to a financial institution outside the United States.

International ACH transactions are destined for a financial institution outside of the territory of the United States. Due to federal requirements mandated by the Office of Foreign Assets Control, the National Automated Clearing House Association has adopted specific rules on the identification and processing of these types of direct deposit payments.

To avoid potential federal penalties, each state agency must:

- Be able to show due diligence in processing all direct deposit payments.
- Do its best to ensure direct deposit payments issued to accounts at U.S. financial institutions are not ultimately being transferred to financial institutions outside the United States.

According to the University, two vendors failed to indicate whether the ACH transactions would be forwarded to a financial institution outside of the United States. In the future, no vendors will be set up for ACH until this information is provided on the direct deposit enrollment form.

Recommendation/Requirement

The University must ensure that all payees that request payment by direct deposit provide the appropriate direct deposit authorization form, with the international payments verification question answered and the form signed. A direct deposit authorization form should not be processed if the International Payments Verification section is left blank or the form is unsigned.

University Response

Two vendors failed to indicate whether the ACH transactions would be forwarded to financial institutions outside of the United States. In the future, no vendors will be setup for ACH until this information is provided on the direct deposit enrollment form.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Employees Retained Security and Ability to Expend Funds After Termination/Authority Expired

Finding

During the audit period, the University failed to notify the Comptroller's office about the termination of an employee designated to approve its expenditures. The employee remained listed on the University's voucher signature cards for 381 days after termination. This means that the former employee could have approved vouchers that were submitted to the Comptroller's office on paper during that time. Any payment produced by a paper voucher that was approved by the terminated employee would have constituted an unapproved expenditure. Another employee maintained security in USAS for one day after the employee's authority expired allowing the employee the ability to approve electronic vouchers during that time. According to the University, the employee was reclassified internally and USAS security was updated as soon as possible. Additional controls have been instituted to prevent future occurrences.

The Comptroller's office formal rule pertaining to designating individuals to approve agency expenditures and revoking those designations was in effect during the audit period. Whenever a designated employee terminates employment with an agency, the Comptroller's office must receive notification of the employee's termination no later than the fifth day after the effective date of the employee's termination. See 34 Texas Administrative Code Section 5.61. Any officer or employee may send the Comptroller's office notification. See Section 5.61(k)(3)(B). Additionally, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept emails, faxes, letters, memos or other writings as long as the writings indicate that a designated employee has terminated employment and the notification specifies the effective date of the employee's termination.

For an employee whose authority to approve an agency's expenditures is revoked for any reason, the employee's USAS security profile must be changed not later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code Section 5.61(k)(5)(A)-(B).

Recommendation/Requirement

The University must ensure compliance with Section 5.61. The University must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the designated employee's termination on or before the termination becomes effective and follow up through with the Comptroller's office to ensure the notification was received.

University Response

The employee who had ability to expend funds for 376 days had no USAS security. The other employee was reclassified internally, and her USAS security was updated as soon as practically possible. Additional controls have been instituted to prevent future occurrences.

Control Weakness Over Expenditure Process

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the University placed on its accounting staff members' abilities to process expenditures. We reviewed the University's security in USAS, the Texas Identification Number System (TINS) and its voucher signature cards that were in effect on Oct. 6, 2016. We did not review or test any internal or compensating controls that the University may have relating to USAS or TINS security or internal transaction approvals.

We identified three employees who could process and release payments through USAS; can adjust payment instructions in TINS and approve vouchers; and can process and release payrolls. Two of the three employees can also process and release payments between internal systems and USAS. According to the University, due to the small size of the Business Office, it remains necessary to have a very limited number of users who can enter and release batches in USAS. Compensating controls include review and approval by the Controller or Assistant Controller before any batch is released in USAS, if the user releasing the batch also enters it. No payment transaction is entered without a separate review and approval. Additional review and monthly reconciliations are done by a separate accountant who does not enter USAS transactions.

The University was provided with a schedule of these findings during fieldwork.

Recommendation/Requirement

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent practicable. Ideally, no individual should be able to process transactions without another person's involvement.

The University should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual has the capability to update information in TINS as well as be able to approve payments by being listed on the University's voucher signature card. We strongly recommend that the University implement the following recommendations:

1. The University must limit access at the time it is set up (96A screen) by limiting user access to either enter/change vouchers or release/approve batches.
2. The University should elect to have the document tracking control edit on the Agency Profile (D02) set to either:
 - Prevent a user from releasing a batch that the same user entered or altered for the agency
 - OR–
 - Warn the user when the same user attempts to release his or her own entries or changes and have a second individual review and process those transactions. See [USAS Accounting and Payment Control \(FPP B.005\)](#).

3. The University should review the preventive and detective controls over expenditure processing discussed in [USAS Accounting and Payment Control \(FPP B.005\)](#), such as the Risky Document Report (DAFR9840) which identifies documents that the same user entered or altered and then released for processing.

Also, the University should limit access of users who enter/change vouchers or release/approve batches in USAS to view-only access in TINS. An individual should not be able to create a vendor or change a vendor profile, create a payment, and approve the payment. The University could limit the user's access by removing the user from the Warrant Pick-up List or by removing the ability to release/approve vouchers in USAS from the user.

The University must limit user access to either enter/change vouchers or release/approve batches. The University must limit view only for users who can enter/change vouchers or release/approve batches in USAS and TINS (PTINS02). An individual should not be able to create a vendor or change a vendor profile, create a payment and approve the payment.

University Response

Due to the small size of the Business Office, it remains necessary to have a very limited number of users who can enter and release batches in USAS. Compensating controls include review and approval by the Controller or Assistant Controller before any batch is released in USAS, if the user releasing the batch also enters it. No payment transaction is entered without a separate review and approval. Additional review and monthly reconciliations are done by a separate accountant who does not enter USAS transactions.